

STATE OF WASHINGTON



OFFICE OF
INSURANCE COMMISSIONER

**REPORT OF
TARGET MARKET CONDUCT EXAMINATION**

OF

**JOHN HANCOCK MUTUAL LIFE INSURANCE
COMPANY**

**JOHN HANCOCK VARIABLE LIFE INSURANCE
COMPANY**

AT

JOHN HANCOCK PLACE

BOSTON, MASSACHUSETTS

AS OF

DECEMBER 31, 1996

The Honorable Deborah Senn
Washington Insurance Commissioner
Olympia, Washington 98504

Dear Commissioner Senn:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010, I have examined the corporate affairs and market conduct of:

John Hancock Mutual Life Insurance Company

John Hancock Variable Life Insurance Company

John Hancock Place

Boston, Massachusetts

hereafter referred to as "the Company" or "JHMLICO" or "Hancock." Included in this report is the examination of John Hancock Variable Life Insurance Company, a subsidiary of JHMLICO. To distinguish from the parent company, the variable company will be referred to as "JHVLICO" or "the Variable Company". The following report is respectfully submitted.

Scope of Examination

The examination was performed in compliance with the provisions of Washington insurance laws and regulations. The market conduct review followed the rules and procedures promulgated by the Office of the Insurance Commissioner (OIC) and the

National Association of Insurance Commissioners (NAIC). The examination covered the period of January 1, 1992 through December 31, 1996. The scope of this examination was limited to Marketing and Sales Practices, Complaint Handling and Replacement Activity.

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EXAMINATION REPORT CERTIFICATION

This examination was conducted in accordance with the Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. This examination was performed by Leslie Krier and Sally Carpenter, who participated in the preparation of this report.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers and the Company response to the draft examination report, that this report meets the provisions for such reports

prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Pamela Martin

Chief Market Conduct Examiner

Office of the Insurance Commissioner

State of Washington

HISTORY OF THE COMPANY

TERRITORY OF OPERATIONS

MANAGEMENT

John Hancock Mutual Life Insurance Company (JHMLICO) was incorporated in Massachusetts on April 21, 1862, and commenced business on December 27, 1862. The Company was admitted to the State of Washington on June 10, 1924. On February 22, 1979 the subsidiary company, John Hancock Variable Life Insurance Company (JHVLICO) was incorporated. They began doing business on February 12, 1980. JHVLICO was admitted to the State of Washington on December 8, 1980.

Today, JHMLICO provides a broad range of insurance and financial services throughout the world. Insurance operations are principally conducted through JHMLICO and JHVLICO. The Company is divided into three sections: Retail, Investments and Pension, and Group Benefits. As a group, they sell a full spectrum portfolio of products. The life products available include traditional, universal, variable and term policies.

The Company is managed by a Board of Directors. The Company president reports to the Board and is responsible for managing Company affairs on a day to day basis. The current Board of Directors consists of 20 members.

The members of the Board of Directors for 1997 are:

Stephen L. Brown, Chairman

William L. Boyan

David F. D'Alessandro

John M. Connors, Jr.

Foster L. Aborn, Vice Chairman
C. Vincent Vappi
Nelson S. Gifford
E. James Morton
John F. Magee
Randolph W. Bromery
Robert E. Fast
Joan T. Bok

I. MacAllister Booth
Samuel W. Bodman
Lawrence K. Fish
Kathleen Foley Feldstein
Richard F. Syron
Michael C. Hawley
Robert J. Tarr, Jr.

JHMLICO is licensed in all states, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, Canada, the Northern Marianas and in U.S. military installations located in the Atlantic, European and Pacific overseas commands. JHVLICO does business in 49 states (they are not licensed in New York), the District of Columbia, Puerto Rico, Northern Mariana Islands and Guam.

MARKETING AND SALES PRACTICES

Advertising

The Sales Department designs advertising materials for both JHMLICO and JHVLICO. Both Companies share non-product specific materials. The Company has a full time librarian who catalogues materials and archives all versions of the material. All agency and agent requests for sales materials are stored on a Company system. For this examination, the librarian printed a list of all sales materials sent to agencies in the State of Washington for the exam period. The list included 247 items.

The Company does maintain an advertising file as required by WAC 284-23-090. The advertising file contains all forms of materials used to promote the sale of Hancock products. There are institutional marketing materials covering such topics as social security information. Other materials included in the file are: product manuals and rate books, training videos and manuals, product brochures, marketing guides, radio and television advertisements, illustration diskettes and instruction booklets, sales kits, reference guides for agents and insureds, and agent selection guides. The file contained materials for both traditional and variable products.

In addition to the material discussed above, the Company allows agents to create their own materials. The agency office submits these materials for approval by the Home Office prior to use. The Company received 17 requests during 1996. One (1) of the 17 was disapproved. The other 16 were approved with modifications. The Company does not require the agency or the agent to send in a copy of the modified form to be added to their advertising file. During the examination period, the Company did not perform regular audits to ensure that the approved form is used by the agent or agency. Because

they do not require a modified document to be submitted to the Home Office, this item is never added to the advertising file, which is a violation of WAC 284-23-090.

Subsequent Event: The Market Conduct Manual distributed to all personnel and agents as of February 1997 requires a clean copy of the modified approved advertising materials to be retained in the agency office indefinitely. In addition, The Office of Business Conduct is scheduled to visit each agency office annually and to review the agency advertising file.

For the examination, 87 items were selected for review. The items selected ranged from sales brochures to product manuals to training videos. The Company was able to produce all the items on the inventory list but as stated above, did not have final copies of agent created advertising materials. The full address of the John Hancock Home Office was missing on two (2) pieces of advertising. WAC 284-23-060(1) requires the full name and address of the Company to be included on all advertisements. See Appendix D.

AGENT ACTIVITY

The Company has two types of field offices: regional company offices run by company personnel and general agencies. Agents report to the field office assigned to them. The regional office personnel or the general agent's office are responsible for training agents and supervising their daily activity.

Company manuals state that an agent may not take an application unless they are licensed in that state. RCW 48.17.160 requires agents to be licensed with the state and appointed with a company prior to soliciting business on behalf of that company. Appointment is a function of the agency office.

As part of our review of the in force policy transaction database, we checked agents to be sure that they were appointed with the appropriate Hancock Company prior to soliciting business for that Company. We found one policy where the agent was not appointed prior to the application date. The application was dated 3/4/92, the agent appointment was effective 11/23/92. (Policy FV3109239)

Agent Training

Most agent training materials are created and distributed by the Home Office. The regional office or general agency is responsible for training agents. The Company also uses industry training packages such as ACLI and LUTC training programs. The training office may also create their own materials, but these must be approved by the Home Office prior to use.

In February 1997, the Company formalized market conduct procedures and issued two manuals to agents and staff. The manuals set forth guidelines to establish how agents are

to conduct business on behalf of the Company. There are two manuals, one for agents and non-Home Office personnel and one for Home Office personnel. Both the field and home office manuals cover the same topics, but the non-Home Office manual includes sections on NASD and SEC compliance requirements. The manuals are updated as needed. The Company represented the manuals as documentation of procedures in place during the examination period. Therefore, information in the manuals is included as part of this examination.

Agent Disciplinary Actions

As part of the examination, we reviewed all discipline files for agents appointed in the State of Washington. There were seven (7) cases involving four (4) agents. In addition, the Company provided us with investigations done as part of a Market Conduct survey of the Seattle General Agency conducted by the Department of Special Activities (DSA) at JHMLICO. This survey was conducted because more than 20% of the general agency's business resulted from internal replacements.

When a complaint about agent problems is received, it is sent to the Ethics Review Board for handling. If the Board feels the complaint has merit, they request an internal investigation by DSA. There are 18 investigators and 4 managers in this department. The investigators are located in 3 regions, the Northeast, Midwest and West. DSA was created in the 1970's to follow up with policyholders to ensure that dividend disbursements were being handled through the regional or general agent offices. DSA only does investigations and reports back to the department requesting the investigation. Any final action is taken by the initiating department.

Copies of the files on the seven disciplinary cases were reviewed. There were 3 cases addressing sales practices, 2 covering underwriting, one (1) on replacement and one (1) on management problems. While the DSA recommended that warning letters be issued to the agents involved, there were only 2 (two) instances where the letters were sent to the agents. The Ethics program at JHMLICO does have provisions for sanctions against agents, but none have been imposed against Washington agents.

The Company monitors replacement activity on a quarterly basis. If an agency's 12 month mix of business includes more than 20% internal replacements, the Company may request an investigation by DSA. The Sales Practices Department is responsible for overseeing field operations. Because of excessive replacement activity, the Sales Practices Department requested an in house investigation of the Seattle General Agency in 1994.

The investigation consisted of personal interviews with 41 policyholders and involved nine (9) agents. The investigator met with the agents involved, and asked that the agents respond to the investigator on each of the individual policyholders interviews. This was not done. The General Agent prepared a statement for each agent to sign stating that they

met with the investigator. The statement said that the agent understood that the investigator met with the agent's clients and that they discussed the policies with the clients. The fact that the proper agent response was not obtained by the General Agent was indicated in the report. This was noted on each higher level of review, but no further steps were taken to secure the requested documentation from each agent. There were no sanctions or other disciplinary actions as a result of this investigation.

COMPLAINTS

Complaints are controlled by the Customer Relations unit. All complaints received in the mail room or other areas are routed to the Customer Relations unit to be logged onto the Customer Response System (CRS) for tracking purposes and a file is set up. Once this is done, the complaint is assigned to a Consultant. The Consultant acknowledges the complaint in writing to the complainant. The Consultant then begins researching the complaint by requesting and reviewing application records and other policy transactions. The Consultant may contact the agent or the agency office for further details. Once all the information is gathered, the Consultant reviews policy records and information for compliance with state regulations and for violation of general contract law concerning life insurance policies. They review for compliance with NASD and SEC regulations for variable policy complaints. From this information, the Consultant arrives at a resolution. This resolution is communicated to the complainant and other parties that may need to be a part of the solution. The Consultant is also charged with follow up to ensure that the final decision is carried out.

Company complaint records for JHMLICO and JHVLICO are combined in one log. The log indicates that during the examination period there were 58 complaints received from Washington policyholders. The following chart shows the types of complaints received by year.

Type of Complaint	1992	1993	1994	1995	1996	Total
PHS	7	15	4	1	4	31
Claims	0	0	0	0	0	0
Policy Delivery Free Look	0	0	0	0	0	0
Underwriting	0	1	0	0	0	1
Agent Handling	3	0	2	1	1	7

Misrepresentation						
Miscellaneous	3	3	3	5	5	19
Total	13	19	9	7	10	58
Additional Action Taken	10	6	5	4	6	31

Our review consisted of 38 of the 58 policies on the JHMLICO complaint log. The largest number of complaints received concerned the sale of new policies that were to be financed from loans against old policies (17 complaints). After reviewing the files, it was determined that the Company reversed the new policy and reinstated the old policy to its original status in all cases. There is no indication that the agents involved were reprimanded in any way, except for commission charge back.

Company records for 12 complaints were incomplete (See Appendix A). It was difficult to determine if the Company actually followed their complaint handling procedure as the files were missing the initial correspondence, investigative records, and final resolution paperwork including notification to the claimant. In four (4) cases, the complaints had been forwarded to another department, and no records were kept in the Customer Relations Department. (See Appendix B)

During the examination period, the OIC received 21 complaints from consumers about JHMLICO and JHVLICO. A breakdown of the OIC complaints follows.

Type of Complaint	1992	1993	1994	1995	1996	Total
Policy Holder Services	1	2	1	2	1	7
Claims	3	0	0	0	0	3
Policy Delivery/Free Look	1	1	0	0	0	2
Underwriting	0	1	0	0	0	1
Agent Handling/Misrepresentation	0	1	1	3	2	7
Miscellaneous	0	1	0	0	0	1

Total Complaints	5	6	2	5	3	21
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Four of the OIC complaint files were selected for review. All of the selected complaints dealt with values being used from an old policy to pay the premium on a new policy. In all cases, the complaint was made when the value from the old policy was insufficient to pay the new policy premium, and both the old and new policies were lapsing. In three of the complaints, the Company reinstated the old policy or refunded all premium paid on the new policy. In one case, the original Company decision was upheld.

The Company acknowledges all types of complaints within 2 days of receipt. However, final resolutions can take longer. In our sample, three of the four OIC complaint cases took longer than 15 working days for a response to be issued to the OIC. This violates WAC 284-30-650. (See Appendix C)

The response time for non-OIC complaints averaged 57 days.

Subsequent Events: The Company made several changes to complaint handling since the examination date. They have added staff, implemented new procedures and a complaint handling system, and review reports from the new system to determine trends in agent activity.

IN-FORCE POLICY REVIEW

During the examination period, JHMLICO issued 1,867 life policies and 618 annuities in Washington. JHVLICO issued 3,175 life policies and 61 annuities. Records were extracted from Company provided data for sampling purposes. The data extracted for the examination fell into one of the following categories.

- Policies issued during the examination period that had at least one policy in force with the Company prior to the examination period. There were 313 policies from JHMLICO in this category and 371 JHVLICO policies.
- Policies issued during the examination period that were the result of replacing policies from another company. There were 412 policies for both companies in this category. The result of this review is discussed in the Replacement section of this report.
- Policies issued during the examination period that were the result of replacing existing JHMLICO or JHVLICO policies. There were 432 policies from both companies in this category. The result of this review is discussed in the Replacement section of this report.

- Policies issued during the examination period that had at least one policy in force with the Company prior to the examination period, and the existing policy had a loan taken against it after the new policy was issued. There were 205 policies in this category.
- Policies issued during the examination period that had at least one policy in force with the company prior to the examination period, and the existing policy was surrendered or lapsed after the new policy was issued. There were 379 policies in this category.

The review of in force policy records was conducted to determine the extent to which existing policy values were used to finance premium on new policies issued during the examination period. We reviewed policy records for the existing policies to determine if loans, surrender of cash value, surrender of dividends, or partial surrenders were completed shortly before or after a new policy was issued on the same life. There were policies that appeared in more than one category.

Existing Policies Surrendered When New Policy Issued

The Company identified 379 new policies where the existing policies were surrendered or lapsed when the new policy was issued. Of these, 41 were selected for review as part of this examination.

During our review of in-force policy records, we found that Company Form 473R Ed 3/91 was used to direct the Company to use money from an existing policy to pay the premium on a new policy. Use of this form is significant because it is an indicator of the movement of funds from one policy to another.

The Company stated that this form had been pulled from use 1/1/92 except in cases of disclosed internal Section 1035 Exchanges. The Seattle General Agency used this form through 1996. We did not sample specifically to check for Form 473R Ed 3/91. We checked all files pulled for in force policy review and for internal replacement review for Form 473R Ed 3/91. This totaled 236 files. Company records indicated that of the 236 files reviewed, 68 were Section 1035 Exchanges. Of the 68 Section 1035 files, 32 contained Form 473R Ed 3/91. We found that this form was used only by agents in the Seattle General Agency, and not by agents in other agencies. Appendix E shows those policies found during our review that had Form 473R Ed 3/91 as part of the file documentation. Appendix F is a listing of all policies found during the review that were the result of a Section 1035 Exchange.

Loan Taken on Existing Policy When New Policy Issued

Two hundred five policies (113 Mutual Company and 92 Variable Company) were identified by the Company as having loans taken out on them within a year of the time

that a new policy was issued. Of these, 18 existing policies and their corresponding new policies were selected for review.

The stated Company position is that loans from existing policies may not be used to fund new policies. Our review indicates fund movement connected with new policy issue in some cases.

- Notes in one file on a variable policy indicate that a loan was being taken in connection with the issue of a new policy. The old policy was surrendered at the time the new policy was issued. (Policy #3189873)

REPLACEMENT ACTIVITY

During the examination period, 761 life and annuity policies were issued in the State of Washington as the result of external or internal replacement activity. This represents 13.3% of the total policies issued in the State of Washington by JHMLICO and JHVLICO during the examination period.

Agents forward applications to their agency office. The agency office checks to be sure the application is complete. If not, it is returned to the agent. The agency then holds the application until all other underwriting paperwork is received. This includes replacement requirements. There is no time limit for submission of applications and paperwork to the Home Office.

The agency does not routinely date stamp applications or submit applications to the computer system until all requirements are received. When all requirements are received, the application and attachments are then entered into the new business computer system and the paperwork is sent to the Home Office for processing. Replacement applications are routed to the Replacement Unit for handling. It is at this point that forms are checked for accuracy. If the forms are acceptable, notification is sent to the existing company for external replacements. At this point the Company begins counting the number of days it takes them to send out notification of possible replacement to an existing company.

Agency offices are responsible for advising agents of replacement requirements. This information is also available in the Market Conduct Manuals, but these manuals are not state specific.

From the Company logs for internal and external replacements, we chose 141 files to review. These consisted of both JHMLICO and JHVLICO policies. Fifty agents wrote the 141 replacement applications reviewed.

External Replacements

From January 1, 1992 through December 31, 1996, there were 412 policies issued in the State of Washington by JHMLICO and JHVLICO that included replacement of another company's policy. The Company instructs agents to fill out a Policyholder Replacement Questionnaire that is signed by the client and the agent. The agent is also required to complete all application questions concerning replacement, and to complete a form to be reviewed with their agency head. They are instructed to keep copies of all paperwork in their client files.

This information was obtained from the Market Conduct Manual for agents. The manuals we reviewed were not state specific. The Company relies on the agency offices to teach agents about specific state regulations. Company manuals advise that sanctions will be imposed for improper replacement activity.

Our review consisted of 31 JHVLICO and 39 JHMLICO files. We examined files to ensure that replacement forms had been properly completed and signed by the policyholder, and that application questions had been appropriately answered. In addition, time service was checked to ensure compliance with WAC 284-23-455 which requires that existing companies be notified of possible replacement within 3 days of receipt of an application indicating replacement by the replacing company.

Results of our examination are:

- Replacement notification to the existing company was late on 15 policies for JHVLICO and 15 policies for JHMLICO. The average notification time for JHVLICO was 16.47 days, for JHMLICO was 10.33 days. WAC 284-23-455 requires notification within 3 working days of receipt of the application. Replacement forms are received in the agency office, submitted to the new business system and then held until all underwriting requirements are received. This could take up to two or three weeks. The application and all related documents are then sent to the Home Office for completion of the underwriting process. Replacement papers are sent to the Replacement Unit for processing only after being received in the Home Office, not when received in the agency office resulting in long delays before other company notification is sent to the other company. (See Appendix H)
- Five (5) files had incomplete replacement forms. There were varying reasons for the form being incomplete. (See Appendix I)
- In one JHVLICO case, a telephone interview by the underwriting department with the proposed insured revealed that the new policy was to replace existing coverage. This had not been disclosed on the application. Appropriate paperwork and application amendments were completed. (Policy # 3213782)

Internal Replacements

In 1973, the Company implemented their first internal replacement detection system. The manual system checked for termination of existing policies within 6 months of issuing a new policy. In 1983, they expanded the time frame to 12 months. The Company did not pay commissions on internal replacement applications at the time of issue. If they found that the existing policy terminated during the replacement period, the Company would research the transaction to determine if the policy values were going into the new policy. If the transaction met the definition of replacement, adjustments were made to the agents commissions.

In 1989, the Company defined a basic replacement period as six months prior to and twelve months following issuance of a new policy. If the Company detects loan activity on the existing policy, they expand the basic replacement period an additional 12 months. In addition, they allowed partial first year commissions on internal replacements.

If replacement is detected during the basic replacement period or an extended period, commissions are reversed and the agent is required to explain their actions. If the activity continues, the Company states that they have the right to take sanctions against the agent.

In 1990 the Company began using the Replaced Insurance Detection System (RIDS). This system automated the monitoring of internal replacement life insurance business. In 1993, the system was enhanced to include movement between life insurance and annuity policies, and between two or more annuity policies. In 1995, it was again enhanced to include policy loan transactions against the existing policies. If found, the Company contacts the policyholder directly with an explanation of how the transaction may affect their existing policy. They contact the supervising agency office also.

Company logs indicate that there were 432 policies issued by JHMLICO JHVLICO internal replacement applications during the examination period. Policies listed in these logs include term conversions, conversion of term riders, surrendered and lapsed policies, and those where the policy owner exercised a non-forfeiture option to extended term insurance or reduced paid up insurance. There were no statistics available as to the number of policies in each category.

Company records were available from the RIDS system. The Company investigates those agents and agencies who exceed 20% internal replacement business in any 4 quarter period of time. According to the RIDS reports, there were no individual agents who exceeded this percentage during the examination period. However, the Seattle General Agency did exceed this limit in 1994 and an internal investigation was completed. The results of that investigation are discussed in the Agent Discipline section of this report.

A sample of 41 JHMLICO and 30 JHVLICO policies were chosen from the internal replacement logs provided to the examiners. The records of the existing policies were reviewed with the records from the new policies. Of the 71 policy records examined, all

appear to comply with the requirements of WAC 284-23-400 through WAC 284-23-485. Required statements accompanied the applications and copies were in the files.

In checking policy records for both the existing and replacement policies, we found the following:

- In two (2) cases, loans were taken against the existing policies that appear to be used to pay premium on the new policies.
- In reviewing the internal replacement records, we found that four (4) agents were responsible for 155 internal replacement applications during the examination period. This is 36% of all internal replacement transactions during the examination period. There is no record of any reprimands or sanctions against any of these agents by the Company. (See Appendix G)

SUMMARY

JHMLICO was aware of problems with internal replacements as early as the mid-1970's. The Company attempted to address these issues by initiating a replacement monitoring program, which matched surrender of existing policies to new policy issues for 12 months. They discouraged such transactions by paying no commissions on internal replacement. In late 1989, the Company began monitoring internal replacements for longer periods of time, and allowed partial commissions on this business. In 1990, the Company automated the monitoring of internal replacements. Since then, they have enhanced this system to include all types of financial transactions against the replaced policy.

The Company also created the Professional and Ethical Guidelines, dated May 1993. Agents and employees are required to read and follow these guidelines at all times. They also created the Department of Special Activities in the 1970's to handle internal audits and investigations at the request of other units.

Our examination found that the Company does monitor activities as stated above, but they do not follow through with agent reprimands and sanctions when the activity is noted. Examples of this are:

- The RIDS program established by the Company to detect excessive replacement activity calculates replacements as a percentage of business written. If 20% of an agent's business written in a 12 month period is replacements, the agent is included in a RIDS report. Therefore, if an agent writes a large number of applications in a 12 month period, but stays below the 20% threshold established in the RIDS program, the Company does not review that agent's replacement activity.

- Seventeen (17) complaints received during the examination period (29%) concerned undisclosed use of existing policy values to fund new policies. The Company rescinded the new policies and reinstated the old policies in 16 cases. There were no agent reprimands or sanctions imposed.
 - In several cases, we found notes in files that loans were being taken to fund new policies. This is against Company procedure, but the transactions were processed. There were no agent reprimands or sanctions imposed.
 - In 1992, the company illustration software and advertising materials referred to a method of premium payment they termed "vanishing premium". The insured would elect the dividend option that allowed dividends payable in the current year to off set premium due. They did this by signing an "election of Vanishing Premium Option" form (Form 15871 Ed. 1/90). This form required the policy owners signature and affirmation of the understanding that additional premium could be required if dividends and paid up additions were not sufficient to pay the annual premium. Both the illustration and the election form were revised in 1993 and 1994, but still referred to "vanishing premium". In 1995, the Company stopped using "vanishing premium" and began using the phrase "Alternate Payment Option".
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- Company procedures are in place to detect inappropriate replacement activity by agents. Company procedures call for sanctions against agents who inappropriately replace policies. Examination of policyholder complaints showed that the Company took steps to make policyholders whole when inappropriate replacements were brought to the Company's attention. The examiners found no record of sanctions against the agents.
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INSTRUCTIONS

1. The Companies do not require that copies of the final form of non-standard advertisements be submitted to the Home Office. Of 18 forms reviewed during the examination, 17 were modified and the final copies were not in the advertising file. This violates WAC 284-23-090 which requires that all forms of advertising be included in the advertising file. The Companies are instructed to include final versions of non-standard advertisements in the advertising file. (Page 6)

2. WAC 284-23-060(1) requires that the full name and address of the home office be on all pieces of advertising. There were two pieces of advertising that did not contain the Companies' address. The Companies are instructed to add this information to these forms and all others missing

the Home Office address upon the next reprint of the form or six months from the date of this report, whichever occurs first. (Page 7 and Appendix D)

3. RCW 48.17.060(1) and (2) require that agents be licensed in Washington and appointed with a company prior to soliciting business on their behalf. We found one policy where the agent was not appointed with the Companies prior to taking an application on their behalf. The Companies are instructed to revise their appointment procedure to ensure that this does not occur in the future. (Page 7)

4. WAC 284-30-650 requires companies to respond to OIC communications within 15 working days of the date of receipt by the company. The response time on OIC complaints was greater than 15 working days. The Companies are instructed to respond to all OIC communications within the allotted time frame. (Page 11 and Appendix A)

5. WAC 284-23-455(2)(b) requires a replacing company to notify the existing company within 3 working days of receiving an application indicating replacement. Neither JHMLICO or JHVLICO meet this requirements. Average notification time for JHMLICO is 10.33 days and for JHVLICO is 16.47 days. In our review, notification on 43% of the external replacement files sampled took longer than 3 days. The Companies allow the agency office to hold applications indefinitely before sending them to the Home Office for processing. The Companies are instructed to ensure that replacement notification is sent to the existing company within 3 days of receipt either at their home office or their agency office as required by WAC 284-23-455. (Page 14 and Appendix H)

RECOMMENDATIONS

1. When the Seattle General Agency internal investigation was completed, the investigator instructed the General Agent to obtain specific information from each of the agents involved and to send that information to the Home Office to complete their files. Even though this requirement was noted on review by Company management, it was not done. In other instances, the General Agent was instructed to obtain information from agents concerning complaints, agent disciplinary actions, or policy files. It was either not done, or required multiple follow up requests to obtain the information. In some cases, it was never obtained. It is suggested that the

Company follow up with the agency office on a regular basis to obtain this type of information, and document actions taken. (Page 9)

2. It was noted in complaint and agent discipline files that documentation about actions taken, sanctions imposed, and other file paperwork was missing or was in "another department". In some cases, the paperwork was missing altogether. It is recommended that the Company institute guidelines concerning file documentation and retention requirements, and that they audit on a regular basis to ensure that this information is in the files. (Page 9, Page 10 and Appendix A)

3. The average response time for non-OIC complaints is 65 calendar days. It is recommended that the Company provide a prompt response to complaints. (Page 11)

APPENDIX A

POLICIES MISSING COMPLAINT DOCUMENTATION

D400167	60636610
66622900	61215447
61670950	SD1008223
SD1008223	67022456
67020192	6678198
60600448	65585354
60617278	63078775
66873031	206846
207113	

APPENDIX B

COMPLAINTS FORWARDED TO OTHER DEPARTMENTS

SD1008223	SD1008223
67020192	64055730
66637501	

APPENDIX C

OIC COMPLAINT RESPONSES OVER 15 WORKING DAYS

65757759

65585546

63725445

APPENDIX D

COMPANY ADDRESS NEEDED ON ADVERTISING MATERIALS

SP11897 7-94

LIFE 1070 1-90

APPENDIX E

POLICIES ISSUED USING FORM 473R ED 3/91

Policies Issued During the Exam Period - General

66934797

67038130

Policies Issued During the Exam Period with Loans on Existing Policies

66992090

67147360

60554078

Policies Issued During the Exam Period - Existing Policy Surrendered

66923097

66995326

67052391

67086600

67105061

67130026

67151245

7009225

Policies Issued During the Exam Period - Internal Replacements

3141687

3155254

67046456

461696

3230209

795856

3271588

3272154

797605

66492708

64064381

3284000

280154

3153289

3180657

3237321

3281162

631623

7011147

APPENDIX F

POLICIES ISSUED USING SECTION 1035 EXCHANGE

Policies Issued During the Exam Period - General

66934797	67038130	67110801	65891357
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Policies Issued During the Exam Period with Loans on Existing Policies

3302976	3154799	3246794	3114482
3114474	67141491	66992090	67147360
7009225			

Policies Issued During the Exam Period - Existing Policy Surrendered

66923097	66969986	66995326	67052391
67086600	67105061	67130026	67151245
7009225	3178202	3153289	3114482
3135578			

Policies Issued During the Exam Period - Existing Policy Lapsed

66876363

Policies Issued During the Exam Period - External Replacement

3196835	3141453	3238856	3247251
3248608	3252044	3296353	3167723

Policies Issued During the Exam Period - Internal Replacement

3141687	67030890	3155254	66996696
465239	67046456	67039392	3230209
67066836	3207851	795856	3271588
3272154	470978	797605	66951601
66492708	64064381	3284000	3282905
280154	3137989	3153973	3153289
3180657	3182657	3194175	3202233
3197979	3237321	3241572	3258330
3281162	3285880	3296440	631623
7011147	66895652		

APPENDIX G

AGENTS WRITING INTERNAL REPLACEMENTS

Four Agents Writing the Most Internal Replacements During the Exam Period

095385	173
052578	95
034938	62
120811	60

APPENDIX H

JHMLICO POLICIES WITH LATE REPLACEMENT NOTIFICATION

3150784	3187916	3145913	3168981
3166446	67058254	3218392	67091116
3197020	67137670	3247251	67129862
67112181	7009386	3290236	

JHVLICO POLICIES WITH LATE REPLACEMENT NOTIFICATION

3137132	3140133	3141453	3141602
3152519	3173140	3167723	3200366
3229935	700474	3252044	3265643
3294096	3294102	3296353	

APPENDIX I

POLICIES WITH INCOMPLETE REPLACEMENT FORMS

POLICY NUMBER	INCOMPLETE BECAUSE:
3168981	agent signature missing

3166446	Question #7 blank
67058254	Question #7 blank
3218392	Questions #1 and #7 blank
3206921	Question #8 incomplete
67091116	Question #7 blank
67061515	form missing
3197020	applicant's signature missing
3218844	Question #7 blank
67114830	Question #7 blank
SV20003943	form missing
75000074	form signed by applicant, all information is blank